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INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

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DIRECTORATE OF INTELLIGENCE



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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

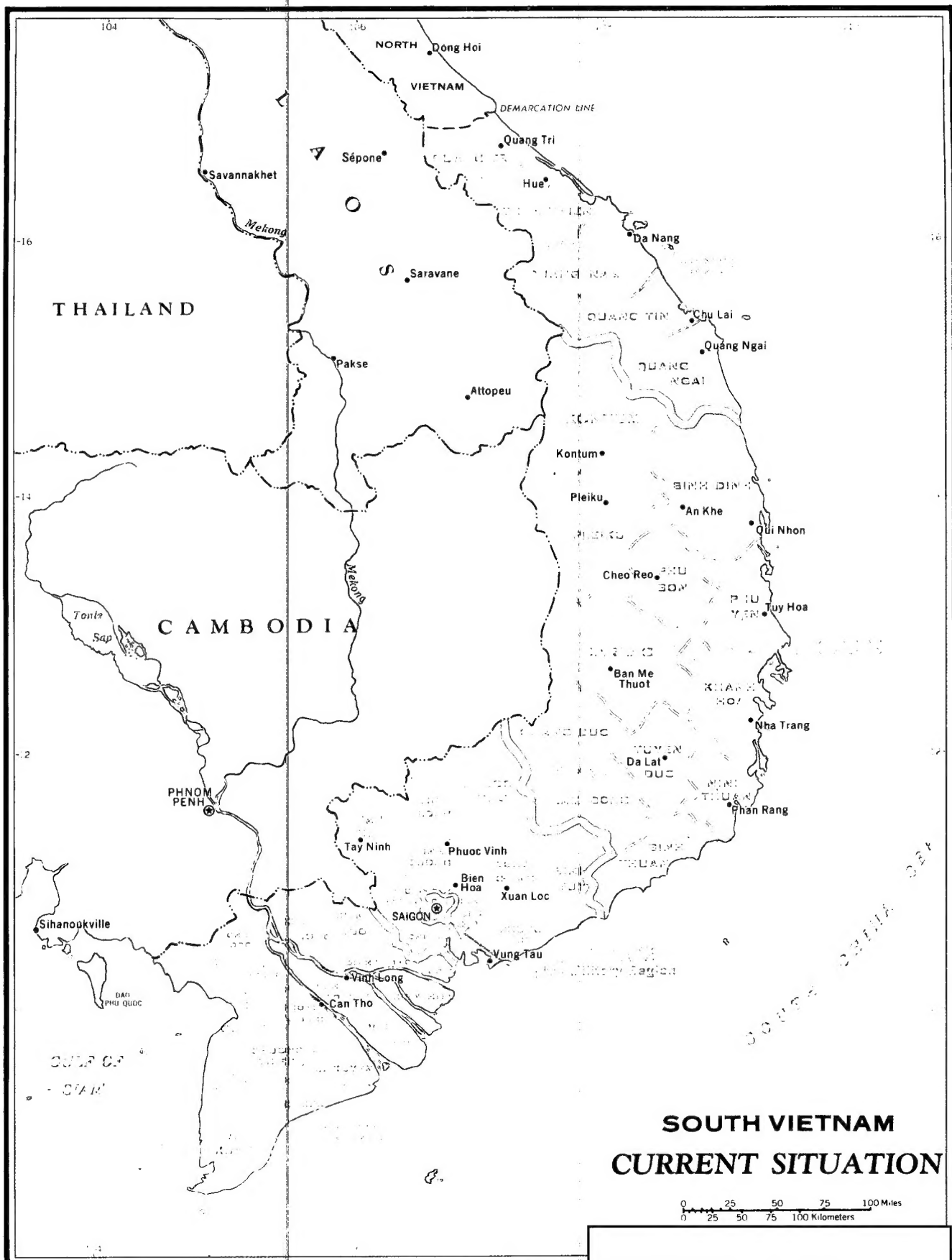
THE SITUATION IN SOUTH VIETNAM
(5 July - 10 July 1966)

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I. POLITICAL SITUATION

Developments within the government last week focused on the arrest and conviction of former I Corps commander General Thi for his role in the recent antigovernment movement. A few loyal supporters of General Thi helped to create a flurry of suspicion among some army factions over the real motives of those who were pressing for Thi's prosecution. Although the Civilian-Military Advisory Council was inaugurated early last week, the announcement of Premier Ky's new cabinet was again postponed, evidently because an acceptable regional and religious balance was still lacking. Following the announcement of a temporary truce with the government by the Buddhist Institute, chairman Tam Chau began exploring the limits of government leniency towards supporters of the "struggle" movement. Although a minor coalition of religious and political leaders has announced it will boycott the September election, the US Embassy believes that there is still no significant opposition forming to the forthcoming constituent assembly contest.

General Thi's Arrest and Conviction

1. Following a decision of the ten military members of the ruling Directorate, former I Corps commander General Thi and two other generals, Dinh and Nhuan, were arrested in Saigon on 5 July, allegedly to facilitate an investigation of their role in the recent anti-government movement by a specially appointed disciplinary board of 20 generals. Former I Corps commander General Dinh and former First Division commander General Nhuan were similarly arrested and under investigation. Although the conduct of Generals Cao and Chuan was being reviewed by the board, Cao and Chuan were not placed under arrest.

2. Prior to his arrest, General Thi had been requested to supply written answers to a comprehensive and detailed set of 13 questions concerning the "struggle"

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movement. In his reply, Thi artfully dodged the questions, and declared that his military honor prevented him from supplying any information which might damage the reputations of other officers who had yet to play an important role in Vietnam.

3. Thi's reply was reportedly drafted by former National Police Director Lieu, a close associate of Thi. Colonel Lieu, who was also active in appealing to various groups on Thi's behalf, told a US Embassy official that Thi had declared his willingness to leave the country if it could be arranged. Lieu reportedly warned others, however, that any moderation by Premier Ky on the issue of Thi's future might be used by Deputy Premier Co-- who took the lead in urging the Directorate to arrest Thi--to discredit Ky. Lieu himself had been scheduled to become ambassador to Thailand, but now may be assigned as a military attache to Australia or the United States.

4. A group of "baby turks" headed by Saigon mayor Lt. Colonel Cua was also reported to be upset by the arrest and the possibility of further public disgrace of Thi. Cua's group reportedly accuse General Co's faction of having ulterior motives in urging that Thi be prosecuted, and has reportedly concluded that it would have to get rid of generals who constantly engage in such political maneuvers. Lt. Colonel Cua once served under General Thi in the airborne brigade.

5. Despite this evidence of military unrest, another high ranking Vietnamese officer reported that he did not believe that "serious" trouble would result from Thi's arrest. In his opinion a majority of officers supported the Directorate's decision. However, the board of inquiry's decision with regard to Thi's future may still be an important issue, since a court martial or further public disgrace of Thi could aggravate the situation.

6. All five generals were meted out what seemed to be relatively light punishments by the disciplinary council on 9 July. All were sentenced to 60 days house arrest and dismissed or retired from the army. Only General Chuan was demoted--to the rank of colonel.

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Cabinet Announcement Delayed

7. Premier Ky's new cabinet was again postponed last week, and reportedly is now scheduled to be announced on 11 or 13 July. The delays appear to have been caused by difficulties in reaching a regional and religious balance, compounded additionally by the question of Buddhist Institute representation. The postponements, however, may also be another indication that all is not going smoothly among the military rulers. It is possible that Deputy Premier Co--who was reported earlier to be questioning some appointments and who stands to lose considerable responsibility in the cabinet reorganization--is balking at the projected transfer of several ministries under his control to the new supraministry for revolutionary development.

Military-Civilian Advisory Council Inaugurated

8. Premier Ky and Chief of State Thieu inaugurated the Military-Civilian Advisory Council in Saigon on 5 July with appropriate speeches. Among other things, they urged cooperation with the government's efforts to cope with economic problems, rural construction, and the building of democracy. The new council, consisting of 59 civilians and 20 military personnel, is to advise the cabinet on the political, economic, social, and cultural aspects of nation building. It is to meet for about six days each month and may be dissolved by the ruling Directorate. One civilian seat, reserved for a Buddhist Institute representative, has not yet been filled.

Buddhist Developments

9. After the Buddhist Institute's announced truce with the government and the subsequent release of nearly 300 persons under government detention, last week Institute chairman Tam Chau began exploring the limits of the government's announced policy of leniency towards supporters of the "struggle" movement. On 6 July, Tam Chau publicly issued three letters to government officials asking that all oppressive actions against compatriots in central Vietnam be stopped, that he be allowed to visit all Buddhists

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now under detention, and that the government release all "strugglers" except for those few individuals as stated by Premier Ky.

10. Although Tam Chau's letters were generally mild in tone, the requests may add up to a little more than the government is willing to grant at present. One of Tam Chau's moderate followers told a US Embassy official that previously Tam Chau had privately urged Police Director Loan to release some 150 Buddhists still under detention. Loan reportedly agreed to release some, but was determined to hold others for another two or three months. Presumably, Loan referred to prisoners being held in the Saigon area. There is no indication yet on the government's response to Tam Chau's requests regarding central Vietnam, where at least 200 "strugglers" have already been arrested with the government roundup of other dissidents presumably continuing.

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Elections

12. The "Front of Citizens of Various Religions" issued a communiqué on 5 July which called for the resignation of Premier Ky and Chief of State Thieu, and for boycott of the September elections. The most prominent members of the Front are Roman Catholic Father Hoang Quynh and Buddhist Institute deputy chairman Thich Phap Tri. Father Quynh, however, has lost much of his previous influence among Catholics, and other Catholic groups are making plans to participate in the elections. Phap Tri, a well-known Buddhist militant, is apparently a member of the Front in a personal capacity rather than as an Institute official. The US Embassy has commented that there does not appear to be any significant opposition developing to the elections. The Front's communiqué has been censored from Saigon newspapers.

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13. [REDACTED]

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Buddhist Institute chairman Tam Chau does not believe that he will be able to persuade the Institute to participate actively in the September elections. However, Chau reportedly feels confident that the Institute will not decide specifically to oppose elections.

14. Central and southern factions of the VNQDD (Nationalist) Party are apparently holding private talks in Saigon in an attempt to improve party unity. Thus far, the VNQDD faction in Da Nang has not made a final decision on its list of candidates, but is waiting to see who is being sponsored by other political groups. A spokesman from the Da Nang faction recently admitted to a US official that his party has a "spotty" image, and indicated the willingness of his group to form an alliance with other nationalists.

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Viet Cong cadre in Tay Ninh Province intend to carry out an anti-election campaign in September. Cadre there are also planning to spread antigovernment leaflets in new life hamlets as a means of organizing further political resistance to the government.

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II. REVOLUTIONARY DEVELOPMENT

According to the US Mission, approximately 72 percent of the 31 May goals for pacified hamlets were met. A total of 419 hamlets with a population of 479,000 persons have been brought under GVN control since the beginning of the year. Local security conditions and the low-level quality of leadership among Vietnamese provincial and district officials continue to pose the most serious obstacles to over-all progress. However, local security forces, including the revolutionary development cadre groups, were strengthened by about 12,000 personnel during April and May. Over a million refugees have come over to the GVN in the past two years; 36 percent of them have been permanently resettled. The Communist defector rate registered a slight gain during the week ending 1 July.

Hamlets Pacified as of 31 May

1. One of the most difficult tasks confronting revolutionary development (RD) planners, both GVN and US, is establishing a realistic measurement of progress. Uncritical reliance on statistical reporting was one of the pitfalls which befell the Diem regime's strategic hamlet program, resulting in overoptimistic "paper" progress. Moreover, there has been some tendency by provincial administrators in the current RD program to accept substandard construction and inadequate cadre performance in order to meet their monthly goals. This tendency, however, has been noted by US officials monitoring the GVN figures, and has been taken into account in their statistical presentation to Washington as a gauge of how the pacification effort is progressing.

2. A basic yardstick used to measure the degree of GVN control over the rural population is the number of hamlets that are "pacified" from one month to the next. In the official monthly RD reports, the hamlets are separated into either a "constructed"

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or a "consolidated" category. The former hamlets are those undergoing pacification for the first time. The latter are being "repacified" with the application of more stringent criteria; many of them have slipped back under some degree of Viet Cong influence since Diem's overthrow.

3. The following data, reported by the US Mission and based on US statistics, show the number of hamlets "pacified" (constructed and consolidated) as of 31 May in comparison to the number programmed (in parentheses):

	Hamlets Within Na- tional Priority Area (NPA) <u>pacified (planned)</u>		<u>Hamlets Out- side NPA</u>	
I Corps	0	(0)	24	(77)
II Corps	14	(27)	74	(127)
III Corps	71	(86)	62	(59)
IV Corps	<u>42</u>	<u>(34)</u>	<u>132</u>	<u>(168)</u>
TOTAL	127	(147)	292	(431)

4. Of 578 hamlets scheduled for pacification from the initiation of the 1966 program, through 31 May, 419 met the US criteria. This is a 72-percent accomplishment of the goals. The population of these 419 hamlets is estimated to be 479,000. US officials caution, however, that the increase in hamlets pacified during the period represents primarily the "consolidation" of less-secure hamlets to a more-secure status rather than new territorial and population gains extracted from the Communists.

Rural Security

5. Another important measure of pacification progress is the degree to which local security can be provided on a continuing basis to the RD cadre and the hamlet populace. This aspect of the program, however, is difficult to present statistically, although increases in Regional and Popular Force strength and

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increases in the number of cadre groups provide a rough indication of progress. Local insecurity is still considered one of the primary obstacles to the success of the over-all program. The difficulty of providing security has been complicated by the infiltration of North Vietnamese regulars, and by their movement from infiltration corridors and base areas into provincial areas previously free of military activity.

6. According to MACV, the present-for-duty strength of the GVN's Regional and Popular Forces during April and May increased by 5,900 and 2,600, respectively. In the first five months of 1966, 33 additional Regional Force companies were activated. With the graduation of the first class of RD cadre groups, the strength of local security forces increased by approximately 12,000 during April and May. US, other free world, and ARVN troops have also contributed significantly to revolutionary development in all of the corps areas, not only by conducting major operations but also by following up small search-and-clear operations with short-range civic-action projects in contested villages and hamlets.

7. As evidence of the continuing Viet Cong reaction to the pacification effort, two Peoples Action Teams (PATs) were attacked on 1 July in Quang Ngai Province by an estimated enemy company. The PATs lost five members killed and three wounded.

Refugees

8. The GVN's Special Commissariat for Refugees reports that the total influx of refugees for the two-year period ending 30 June 1966 has exceeded 1,000,000 persons, or about six percent of the country's total population. Slightly more than half of the refugees have remained in temporary shelters rather than return to their native villages, while 360,574 of them have been permanently resettled. Only 140,502, about 14 percent of the refugees, have returned to their original homes. They apparently fear possible subsequent Viet Cong coercion and proselytism.

9. This large group of displaced persons is in part a direct result of the intensification of

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military contacts and the resultant fear by the villagers of being caught in a shooting battle. The Viet Cong, especially the indigenous South Vietnamese among them, have traditionally relied upon the rural populace for housing and basic support. As the enemy has been increasingly sought out in contested, populated areas, the villagers have apparently become more reluctant to suffer the consequences of supporting the local VC.

Viet Cong Defectors (Chieu Hoi)

10. The defector total for the week ending 1 July registered a slight rise to 313, of whom 223 were military returnees. Even with this rise, the preliminary cumulative total for the five weeks from 28 May to 1 July of 1,571 represents a decline from the high influx during February and March. Monthly totals for 1966, however, have been significantly higher on the average than the respective monthly tallies during 1965. While the total in all of 1965 was 11,124 defectors, US officials report that 9,839 returnees have already been registered at Chieu Hoi centers during the first six months of this year. The defectors for the week ending 1 July rallied by corps areas as follows:

I Corps	30
II Corps	147
III Corps	46
IV Corps	90

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III. ECONOMIC SITUATION

Although prices of most commodities continue to rise, there still is no clear over-all view of post-devaluation price movements. The prices of some foodstuffs --especially meat and fish--have risen substantially, whereas increases in the price of rice have been moderate. Similarly, the prices of some imported commodities have risen as much as 45 percent, but prices of other imported goods have actually declined. In the Saigon free market the prices of gold and dollars continue to fluctuate, apparently because of a general fear that the GVN may not be able to meet the public demand for gold.

The GVN has agreed to new procedures for the use of commercial import program funds and has extended additional time to importers for clearance of their goods through customs at the special rate of 90 piasters per US \$1. Raymond-Morrison-Knudsen has been authorized by the US Mission council to grant an average 15-percent wage increase to the Vietnamese construction workers who were on strike last week.

Prices

1. The prices of most imported and domestic commodities continue to rise. On 27 June, the USAID index of Saigon retail prices was five percent above the previous week and 17 percent above a month ago. By 5 July, prices had increased further. Although the increase in the price of rice has been moderate, prices of meat and fish have risen substantially.

2. Higher meat prices stem largely from the sharp fall in the arrival of hogs in Saigon. On 5 July, the price of pork bellies, which were available only on the black market, was 170 piasters per kilogram compared with an official ceiling of 70 piasters per kilogram and an estimated actual price

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of 90 piasters per kilogram on 20 June. According to GVN estimates, the arrival of hogs at the Saigon slaughterhouse during the week ending 24 June was only about 60 percent of Saigon requirements, and arrivals during the following week apparently were even lower.

3. The US Embassy reports that seasonal factors and official price ceilings are responsible for the shortage of hogs. Official price ceilings have led to a withholding of shipments by suppliers, who expect these prices to be raised in the wake of the general price increases associated with devaluation. On 20 June, the US Mission suggested importing hogs and lifting official prices. Minister of Economy Thanh believes, however, that the importation of hogs would be a poor use of foreign exchange and that official prices are no longer a problem because they are not being observed or enforced. (See Paragraph 8). The US Mission reports that, contrary to Thanh's statements, official prices are observed and enforced at the Saigon slaughterhouse.

4. Wholesale price movements of imported commodities during the week ending 2 July were mixed; the prices of some items declined while prices of other goods rose by as much as 45 percent. Compared with a month ago when prices already were beginning to rise in anticipation of devaluation, the median increase in the price of US-financed imports was 40 percent, which is within the range of the increase in piasters that importers must pay for their goods being cleared through customs at the present time. The prices of foodstuffs, however, were relatively steady--reportedly because of special efforts to speed distribution.

5. The two weeks that have elapsed since devaluation have not provided an adequate time period for price adjustments to be worked out. The US Embassy reports that the prices of some commodities undoubtedly will rise further before leveling off. At the same time, some of the price increases already noted may be inflated because dealers are testing the market. Among the most important factors that will determine the eventual level of prices are readiness of importers to apply for licenses up to

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the amount of foreign exchange being made available, the outcome of wage negotiations, progress in relieving port congestion, and political stability.

Currency and Gold

6. In the Saigon free market, the prices of gold and dollars, which had declined steadily in the week following devaluation, rose from 28 through 30 June and then declined slightly on 1 July. Prices on 1 July were the same as those on 24 June: 320 piasters per dollar for gold, 200 piasters for green dollars, and 119 piasters for MPC (scrip). On 5 July, however, gold rose to 332 piasters and MPCs to 121 piasters--the same rates as on 21 June. Green dollars held steady at 200 piasters. The following day, gold fell to 303 piasters per dollar and green dollars rose slightly. The US Embassy still feels that these fluctuations in the prices of gold and dollars stem from a general fear that the GVN may not be able to meet the public demand for gold.

7. Commercial banks are selling gold to dealers at 249 piasters per dollar, which results in a total price to the buyer of 310 piasters when the dealer's allowance for tax, profit, and workmanship are included. According to Governor Hanh of the National Bank, gold sales by the GVN had totaled 845 kilograms (1,863 pounds) by 25 June. (Graphics on monthly and weekly free market gold and currency prices are included in the annex.)

Official Prices

8. Minister of Economy Thanh has said that official prices eventually will be abandoned. Recently, however, the GVN director of external commerce said that these prices would instead be revised upward. Last week there were some arrests of merchants for exceeding official prices. This action, however, appears to be only the usual low-level harassment, and there is no special concern on the part of merchants, most of whom are obviously exceeding official prices.

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Import System

9. Importers have been given until 19 July to clear their goods from customs at the rate of 90 piasters to US \$1, rather than at the new rate of 118 piasters to US \$1. Originally, it had been announced that only those goods withdrawn from customs by 4 July would receive the special rate of 90 piasters to US \$1.

10. The series of meetings held last week with Minister of Economy Thanh have resulted in Thanh's agreement to a memorandum of understanding between the US and GVN on new procedures for the use of commercial import program (CIP) funds. As stated in this memorandum, which Thanh signed on 30 June, the objectives of the new procedures are to accelerate the importation of commodities in order to prevent shortages, to create a responsible private importing community in South Vietnam, to lower prices to the consumer by increasing competition and by consolidating procurement of certain bulk commodities, and to ensure that funds are not diverted for private profit.

11. In order to accomplish these objectives the GVN has undertaken to establish a system of open general licensing and procedures to consolidate procurement of rice, fertilizer, cement, galvanized iron sheets, tin plate, jute bags, and newsprint. The system of open general licensing will be established by abolishing quotas on most commodities imported under the CIP, and by allowing importers to import different groups of commodities. In addition, the formation of new importing firms will be encouraged and each importer will be able to obtain up to three licenses per quarter for less than \$10,000 in order to quickly meet changes in market demand.

12. This memorandum, which has not yet been signed by the US, states that, subject to Congressional appropriations, the US will make available at least \$170 million to finance CIP and Food for Peace imports between 19 June and 1 October. Of the \$150 million to be provided for CIP financing, at least \$65 million will be made available immediately.

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Wage Increases

13. The US Embassy reports that the reaction of GVN employees to their recently announced 20- to 30-percent pay raises ranges from derision to quiet bitterness. Moreover, this reaction could become worse if Vietnamese employees of US contractors are given a larger percentage increase.

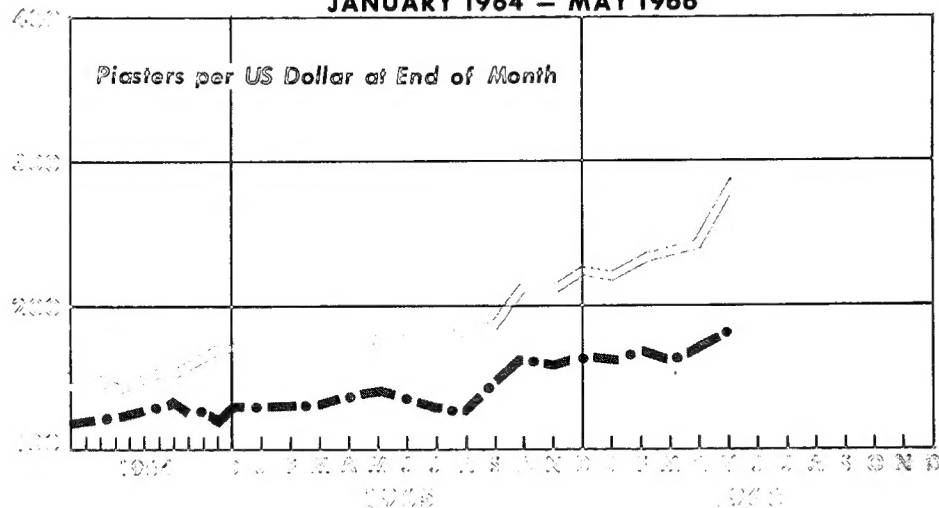
14. It appears, however, that the average pay increase for the Vietnamese construction workers who were on strike last week will fall within the limits set by the US Mission council--a 10- to 15-percent wage increase, which is about half of the workers' original demands. On 2 July, the director of Raymond-Morrison-Knudsen (RMK) pointed out to the US Mission that adherence to the wage schedule of US forces would result in an unequal distribution of pay increases with more than 60 percent of the workers getting an increase of only eight percent although the average increase would be close to 15 percent. As a result, the mission council decided that RMK would be authorized to deviate from the wage schedule of US forces, provided that the aggregate payroll increase of RMK does not exceed 15 percent.

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SOUTH VIETNAM ECONOMIC INDICATORS

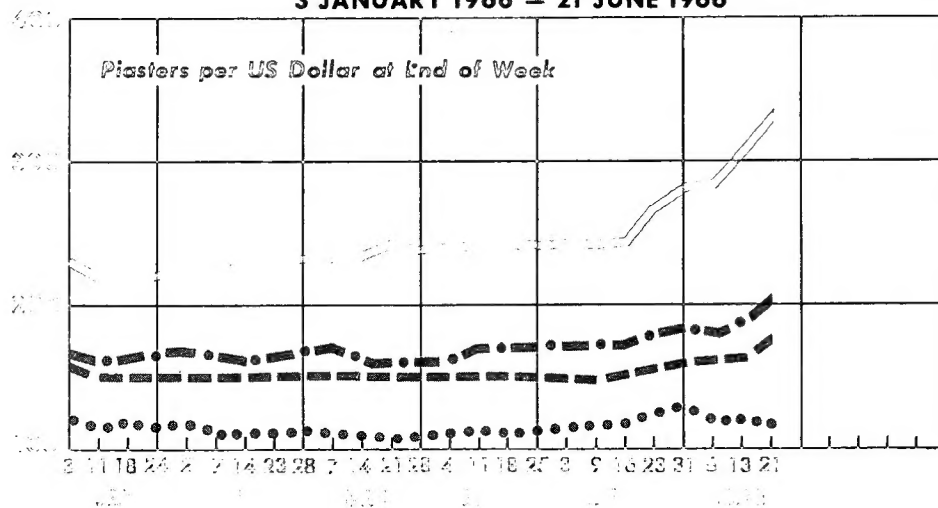
Monthly Free Market Gold and Currency Prices

JANUARY 1964 - MAY 1966



Weekly Free Market Gold and Currency Prices

3 JANUARY 1966 - 21 JUNE 1966



- GOLD (Saigon) - Piaster price per US dollar of gold calculated on the basis of gold leaf as worth \$35 per troy ounce.
- - - - US \$10 GREEN (Saigon)
- - - - PIASTER-DOLLAR CROSS RATE - Piaster-dollar exchange rate in Hong Kong calculated by reference to the exchange rates of these two currencies to the Hong Kong dollar.
- US \$10 MPC (Saigon) - Military Payment Certificates (scrip).